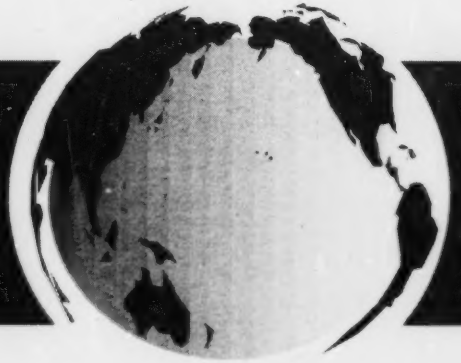
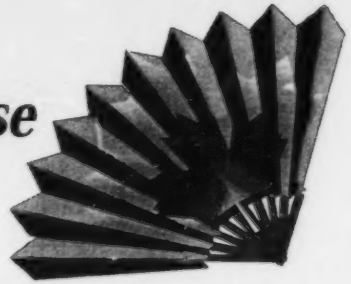
Pacific tradewinds



Japan • Hong Kong • Singapore
Taiwan • South Korea
Malaysia • Thailand • Indonesia
Philippines • China

diminished myth, undiminished promise in the Asia Pacific region



This report was prepared by the Micro-Economic Policy Analysis Branch in consultation with the International Business Branch of Industry Canada.

Is the party over?

We hear plenty these days about the Asia Pacific region. Three recent Team Canada Trips have visited the area. And this year, Canada hosted the Asia Pacific Economic Cooperation summit (APEC).

While remarkable boom-times during the last decade sparked almost unbridled optimism for the Asia Pacific region, the myth of effortless growth has in recent months come crashing down. Does the Asia Pacific region still deserve a lot of attention for trade opportunities? And, if 'Yes!' then, in what fields? And how do we position ourselves to best take advantage of these promising opportunities?

Our future depends on our engaging wider markets. Despite the shake-out in the Asia Pacific region, the determinants of high growth are still in place and forecasters predict the Asia Pacific region will bounce back. However, the Asia Pacific region is also changing, and how it is changing will have more <u>critical</u> implications for our future opportunities in the region. At issue is how we respond to these changes.

Did you know?

Canada has already had three Team Canada Trips to the Asia Pacific region — to China in Nov '94; Indonesia and Malaysia in Jan '96 (when India and Pakistan were also visited); and South Korea, Thailand and Philippines in '97.

In November, the leaders of 18 APEC economies visited Vancouver for their annual summit.

Looking to the future? Look west — toward the economic promise of the East — but there will be changes.

Who are the key Asia Pacific economies?

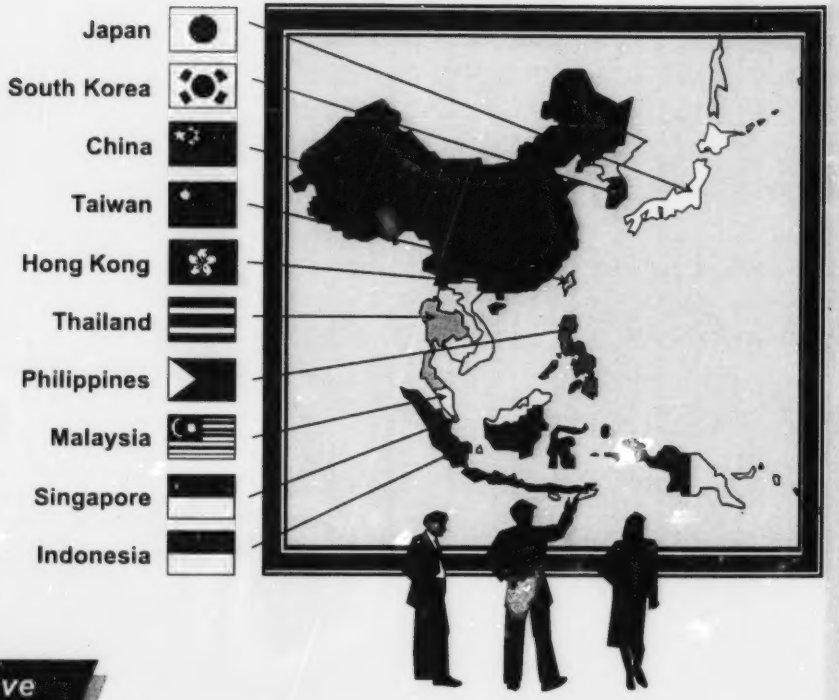
They are a diverse but dynamic group!

102-05285/

The Asia Pacific region is made up of numerous and diverse countries that vary greatly in size, development, culture and language.

Among them are some of the world's fastest growing markets (China, Hong Kong, Taiwan, Singapore and South Korea) plus Japan and many emerging economies of great promise.

We'll focus on the ten largest of these economies.



These 10 largest Asia Pacific economies have a combined GDP of more than $US 6.9 trillion, approximately 20% of world output — and, more importantly, they are expected to outgrow every other market over the next 30 years.

L-1

They include Japan...

Japan is the world's second largest economic power, a major player in international trade and an industrial powerhouse.

The Japanese economy has been struggling of late, and a series of financial reforms have been brought in aimed at making the country more competitive — and to help it bounce back.

	1996
Population	124.8 m
GDP Growth	3.6%
GDP per Capita*	1.8%
Trade with Canada	$21.6 b
Share of World Output	12.4%

* Average annual growth, 1991-96. Further details on Japan and other Asia Pacific economies are provided in the Annex.

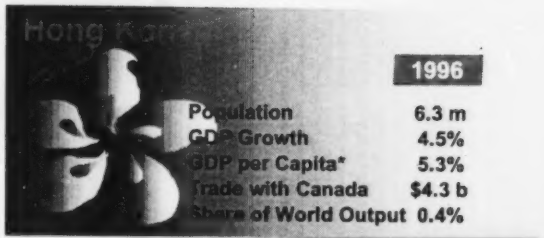
...the four original Tigers...

Small, geographically, Hong Kong, Singapore, South Korea and Taiwan — the original four Tigers — have bustling economies.

Following in Japan's footsteps, they were among the first developing countries to pursue manufacturing export growth as the basic strategy of development.

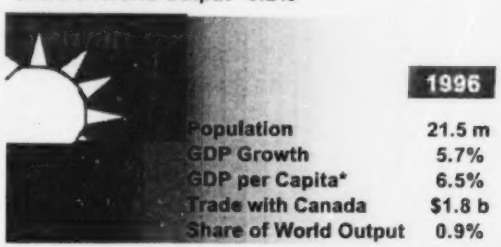
Did you know?

Hong Kong was transferred from British to Chinese control on July 1, 1997. As a Special Administrative Region of China, Hong Kong will keep its market-oriented economic system, its own currency and free movement of foreign exchange and capital, an independent budget and trade policy, and its current status in the WTO as a separate customs area.

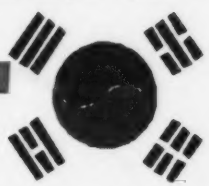


Hong Kong	1996
Population	6.3 m
GDP Growth	4.5%
GDP per Capita*	5.3%
Trade with Canada	$4.3 b
Share of World Output	0.4%

Singapore	1996
Population	3.0 m
GDP Growth	7.0%
GDP per Capita*	8.3%
Trade with Canada	$5.5 b
Share of World Output	0.2%



Taiwan	1996
Population	21.5 m
GDP Growth	5.7%
GDP per Capita*	6.5%
Trade with Canada	$1.8 b
Share of World Output	0.9%



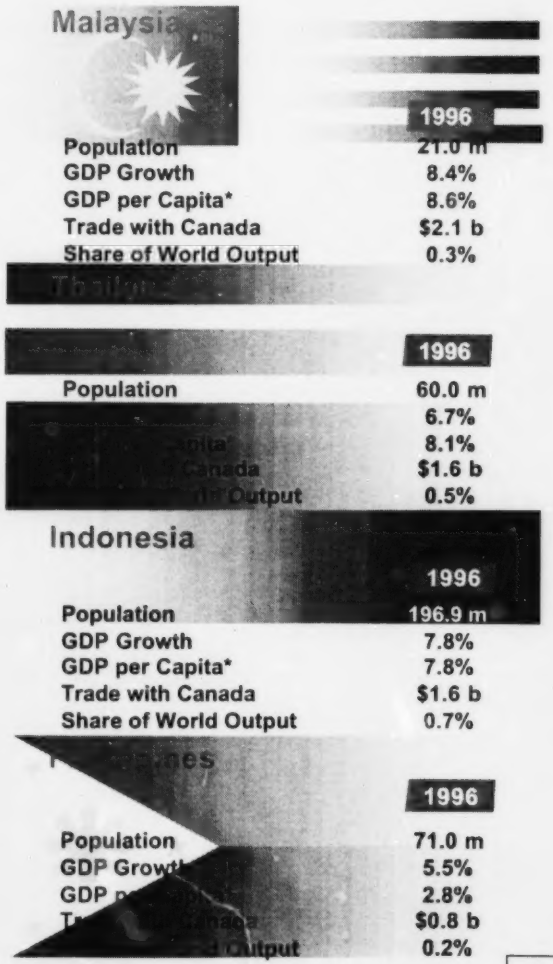
South Korea	1996
Population	45.5 m
GDP Growth	7.0%
GDP per Capita*	7.4%
Trade with Canada	$2.4 b
Share of World Output	1.5%

* Average annual growth, 1991-96

...the new, emerging Tigers...

Sometimes called the new, emerging or "baby" Tigers — Indonesia, Malaysia, Thailand and the Philippines have taken great strides in growth over the past decade, and they remain economies in fast-transformation. However, they have especially suffered from the turbulent events of recent months.

Nevertheless, a significant piece of the Asia Pacific region's promising future rests on them. They are expected to continue having swift growth, as they adopt new technologies and accumulate human and physical capital.



* Average annual growth, 1991-96

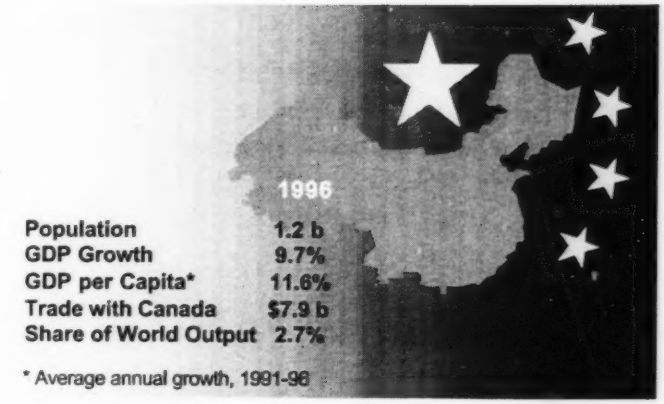
L-4

...and, of course, China

The biggest and most important of the emerging Asia Pacific economies is China.

Destined to become one of the world's most powerful economies, China has had spectacular success over the past two decades — even stunning. Prospects over the next two decades are also bright!

China's economic reforms have helped fuel the world's highest growth rate, averaging 9.3% a year.



Did you know?
Since 1978, China has been the fastest growing economy in the world. China is home to over a billion consumers — about 1/5 of the world's population — whose purchasing power is improving.

Why are they of special interest?

They offer undeniable potential — they are big...

China's market, alone, is immense! But together with Japan, the four Tigers, and the new Tigers, the region's domestic market encompasses over one and a half billion consumers.

Plus, these economies have the vibrancy associated with young consumers whose incomes are growing.

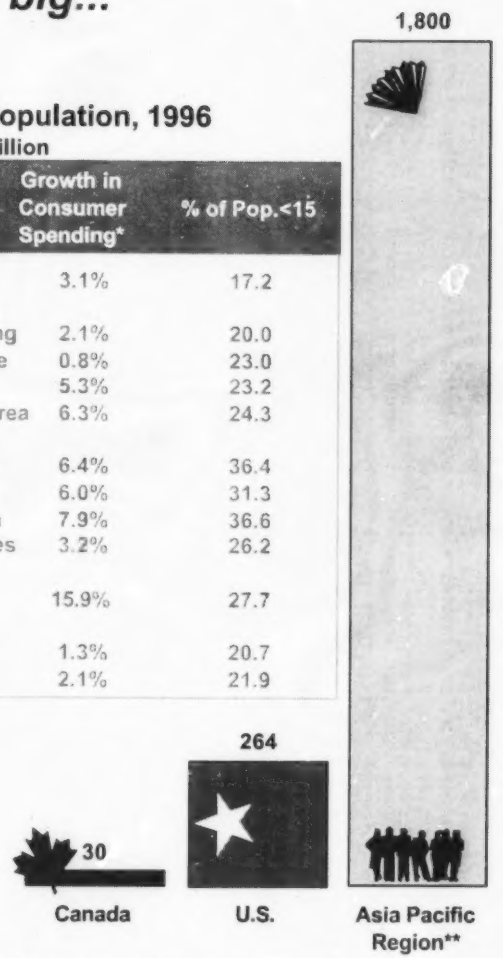
- **Consumer spending in the Asia Pacific region is RISING at 2 to 3 times the rate in North America.**

The Asia Pacific region's market is huge and it's getting bigger.

Population, 1996

Million

	Growth in Consumer Spending*	% of Pop.<15
Japan	3.1%	17.2
Hong Kong	2.1%	20.0
Singapore	0.8%	23.0
Taiwan	5.3%	23.2
South Korea	6.3%	24.3
Malaysia	6.4%	36.4
Thailand	6.0%	31.3
Indonesia	7.9%	36.6
Philippines	3.2%	26.2
China	15.9%	27.7
Canada	1.3%	20.7
U.S.	2.1%	21.9



* Real growth of per capita in l ... al currency 1996

** In this study, the Asia Pacific Region refers to the above ten economies.

Source: The World Competitiveness Yearbook 1997

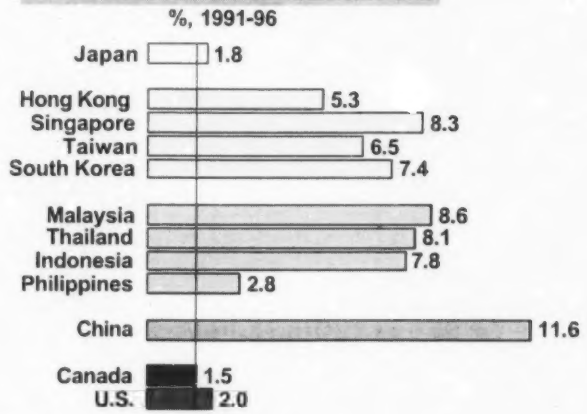
...and are becoming more prosperous

GDP per capita has been rising steadily.

As well, the Asia Pacific region has seen some of the most dramatic declines in poverty — among the fastest in the developing world.

As incomes "catch-up" with those in industrialized countries, a powerful middle class will emerge with massive purchasing power.

GDP per capita is rising...



Source: International Monetary Fund

...and poverty is falling

Number of people in poverty, (millions)

	1993	1995
East Asia	443.4	345.7
China	351.6	269.3
Indonesia	31.8	21.9
Malaysia	<0.2	<0.2
Philippines	17.8	17.6
Thailand	<0.5	<0.5
Vietnam	37.4	31.3

Source: World Bank

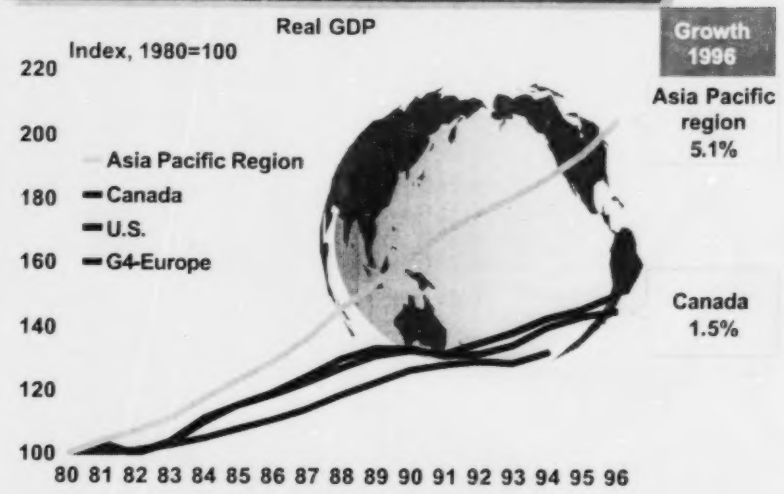
Their growth has been exceptional...

The Asia Pacific economies have been tops in growth.

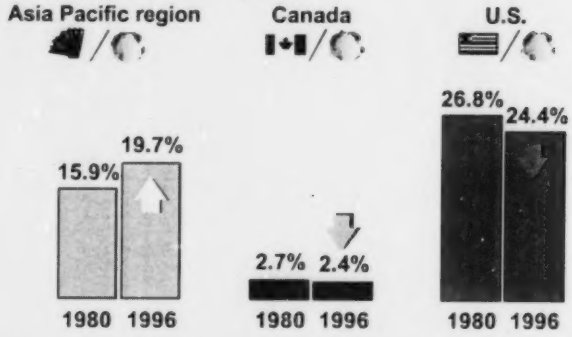
- **Since 1980, their share of world product has increased by a quarter.**

The Asia Pacific economies have been outperforming the rest of the world.

The Asia Pacific Region has had Fast Growth



Share of World Output*



* Based on market rate conversion to U.S. dollars.
Source: World Economic Outlook, DRI/McGraw-Hill, 1997.

M-3

...and is expected to continue...

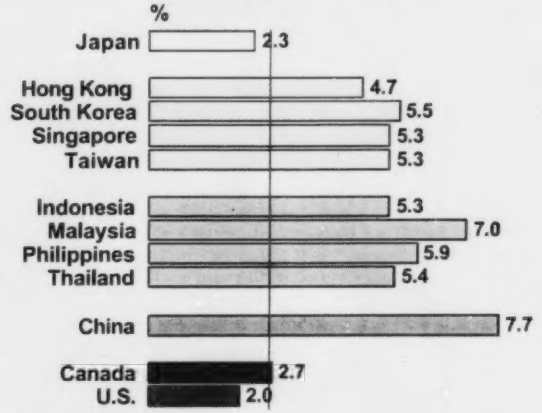
Although recent forecasts may be lower than those of the early 1990s, the Asia Pacific economies' expected growth rates are still high.

In fact, the long-term outlook for the Asia Pacific region remains extremely positive.

Forecasts suggest strong growth, especially for China.

A Glimpse of the Future

Real GDP growth forecasts, 2000-2010*



* Average annual growth

Source: World Economic Outlook, DRI/McGraw-Hill, 1997.

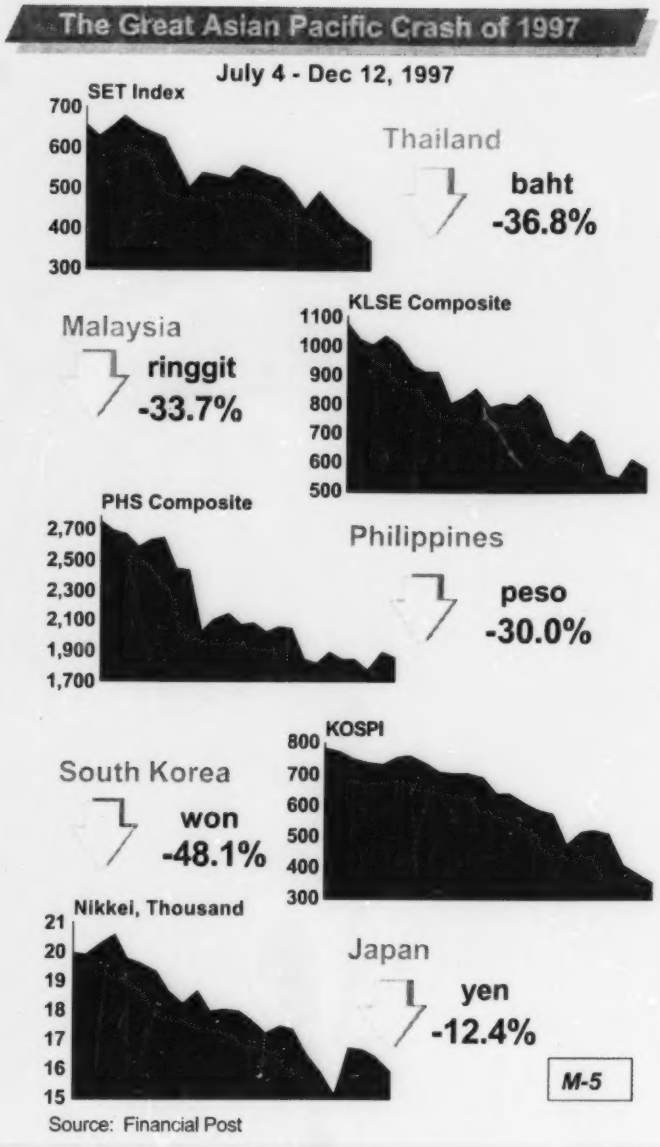
...despite recent difficulties

In recent months, an economic shake-out has lashed the Asia Pacific economies — battering their currencies and stock markets.

- **It started in Thailand at the beginning of July, and soon engulfed Malaysia, Indonesia and the Philippines. It swelled out into Taiwan, South Korea and Japan. Then it hit Hong Kong. Since the start of July, the Hong Kong Hang Seng fell 30.2% and the Japanese Nikkei dropped 22.5%. South Korea's won fell -48.1%.**

Although distressing, most analysts believe these events will not overly diminish the Asia Pacific region's long-term prospects.

Recent times have been harrowing — marked by the turmoil surrounding the Asia Pacific's market and currency crash.

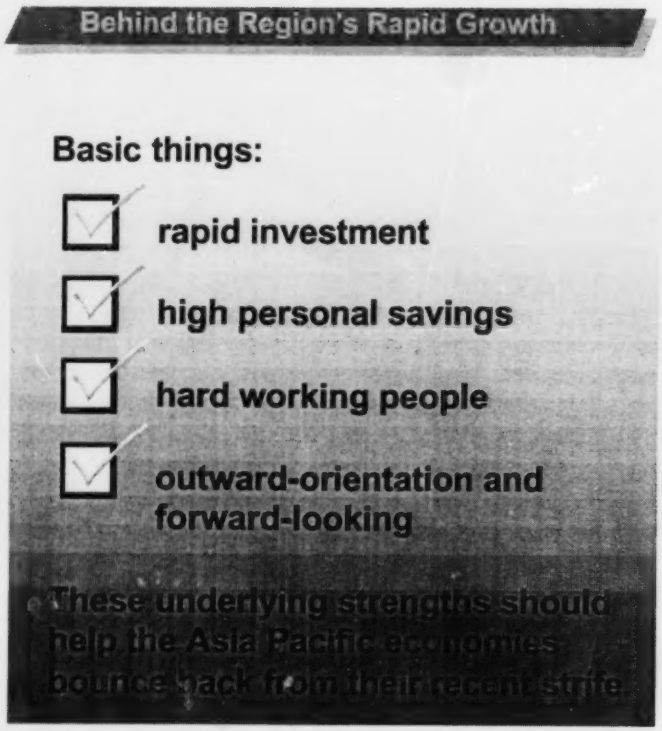


Key determinants of their growth are still in place...

How have the Asia Pacific economies managed to grow so fast?

Their dynamism came from strong investment. As well, the Asia Pacific region saves a lot, and puts those savings into investment.

The Asia Pacific economies have also been very successful at seeking wider markets and at being forward-looking as to future markets.

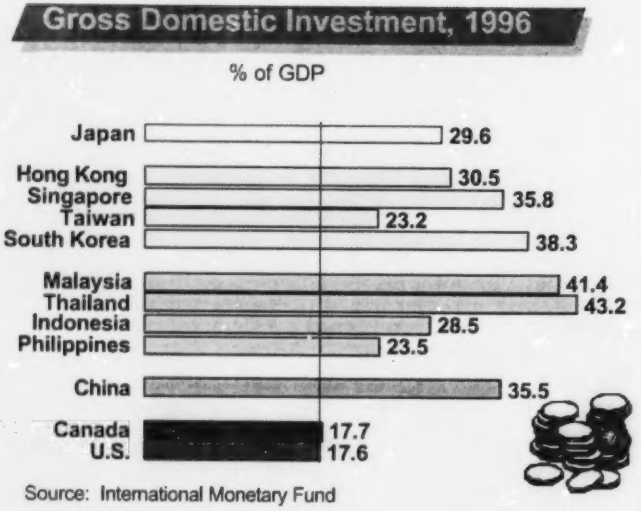

Behind the Region's Rapid Growth
Basic things:
rapid investment
high personal savings
hard working people
outward-orientation and forward-looking
These underlying strengths should help the Asia Pacific economies bounce back from their recent strife

...starting with fast-rising investment...

Strong investment has underpinned growth among the Asia Pacific economies. Investment rates reach over 40% in some economies.

These permit the continuous adoption of new technologies and equipment and growth-related infrastructure.

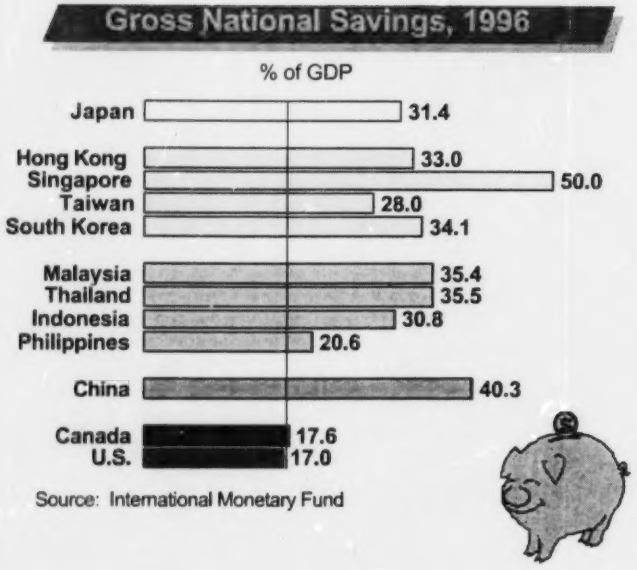
Investment rates in some of the Asia Pacific economies are over twice as high as in North America.



...financed by high personal savings...

The region also has very high internal saving rates — 30-40% in most countries.

These are the highest in the world. In Singapore, half of national income is saved. The monies go into pension funds, mutual funds, stocks and bank deposits, creating an enormous pool of monies that are eventually put into investment.



Did you know?
Pacific Asians saved $US 1.7 trillion in 1996.

...and 'buoyant' FDI

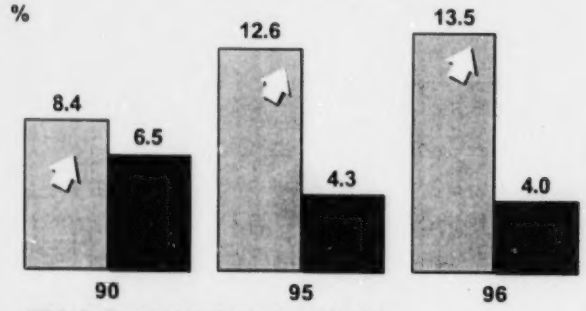
FDI flows into the region have been rising rapidly, and in the 1990s are about 4 and 5 times greater than in the mid-80s.

But foreign direct investment inflows (the majority under 2% of GDP) play a much smaller role compared to domestic savings (30-40% of GDP) in funding investment.

Did you know?

According to the World Bank, China received $52 Billion of FDI last year, roughly 1/5th of all private capital flows to the developing countries.

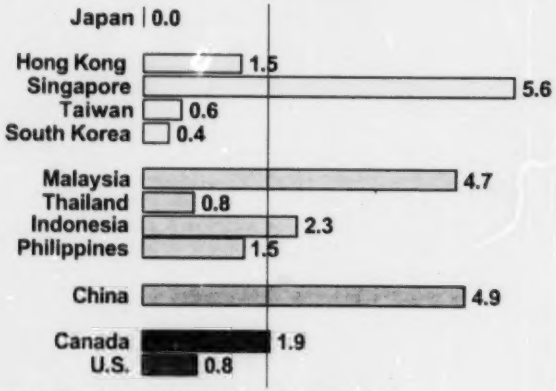
Share of World FDI Inward Stock



Source: World Investment Report 1997

Inward Foreign Direct Investment

% of GDP, 1995



Source: The Global Competitiveness Report 1997

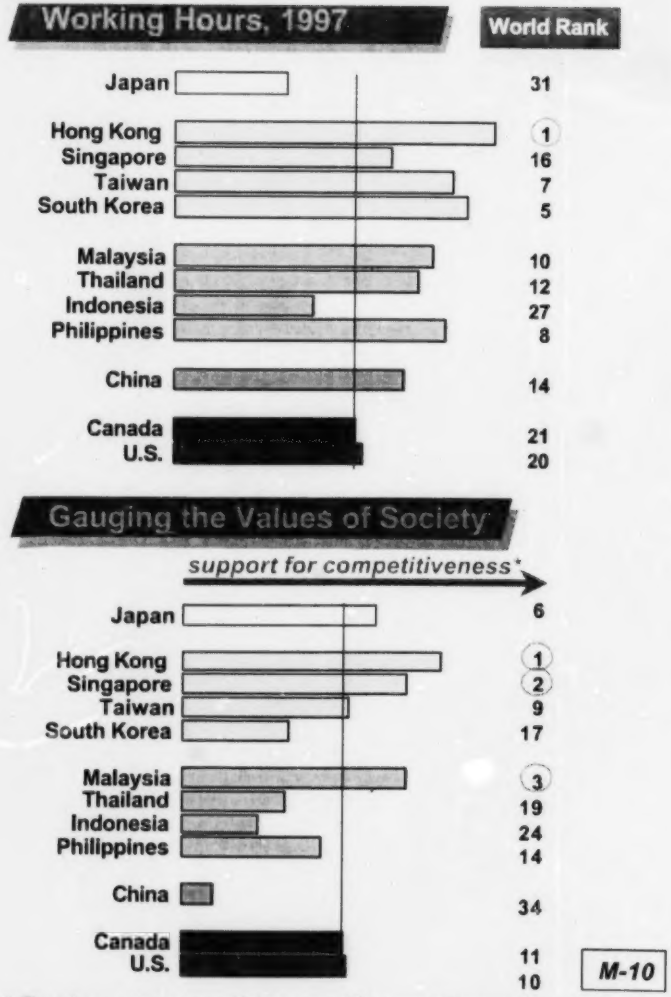
And, their workforces have been keenly competitive

In the Asia Pacific region, fast growth has also reflected workers' contributions, who through long hours and competitive drive have helped their countries to advance as industrial economies.

- **Workers in Hong Kong spend more time at work than workers in any other country.**

- **Hong Kong, Singapore and Malaysia rank highest in the world in terms of societal values such as hard work and tenacity, according to the World Competitiveness Yearbook.**

The Asia Pacific workforces have contributed to their economies' competitiveness.



* Based on a survey on society's support for competitiveness (e.g., hard work) versus support for increasing leisure time and the pursuit of individual interest.

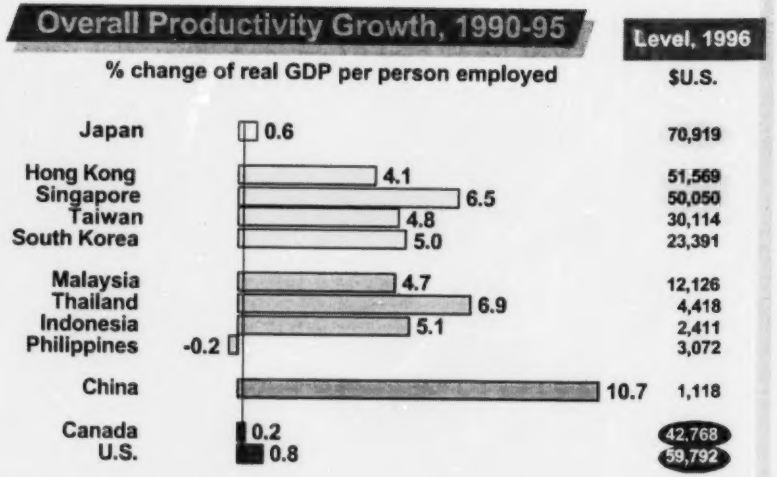
Source: The World Competitiveness Yearbook 1997

These Asia Pacific attributes help foster high productivity growth...

High investment, savings, and drive have helped raise productivity in the Asia Pacific region — and it has been growing fast!

Many of the Asia Pacific economies have started from low levels, however.

Productivity growth by China, the original Tigers and most of the new Tigers has been quickly rising.

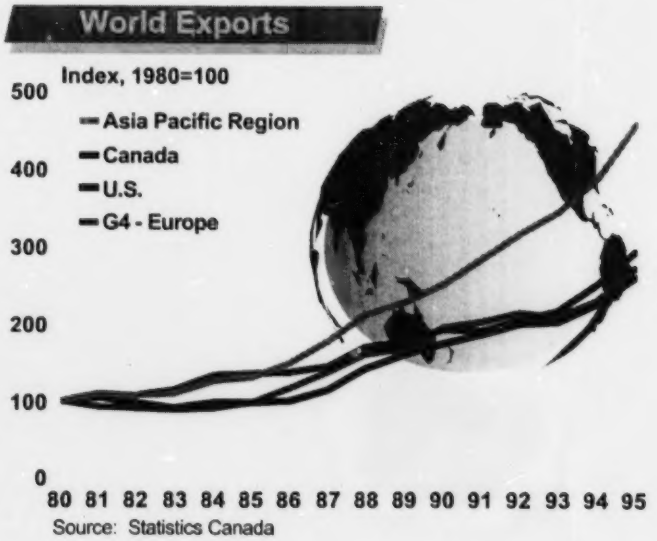


Source: The World Competitiveness Yearbook 1996

...which has aided the region's remarkable rise in exports

High productivity growth and success at seeking wider markets have been keys to their economic success.

All are outward looking, sustained by increasingly freer trade.



The Asia Pacific region is also forward-looking...

The Asia Pacific region recognizes that, in the future, dynamic economies will be increasingly driven by their knowledge activities.

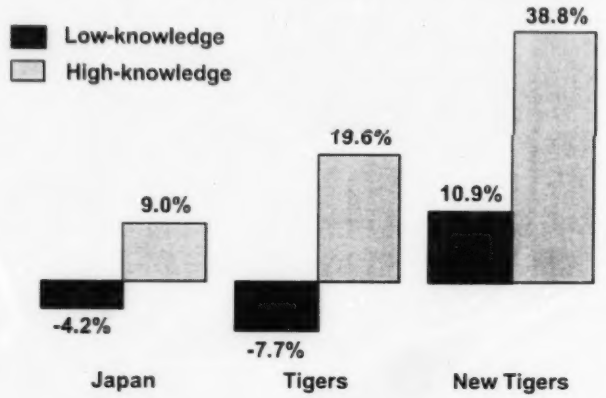
As a result, the Asia Pacific economies are shifting more and more into high-knowledge exports.

Japan and the Tigers had a head start. In recent years, however, the Asia Pacific region's fast growth in high-knowledge exports reflects products and services by the new Tigers.

Because the Asia Pacific economies are forward-looking, they are switching increasingly into high-knowledge exports.

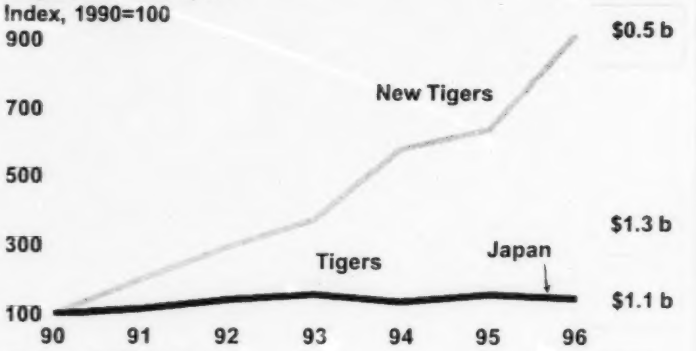
Growth in High-Knowledge Exports to Canada

Annual Growth in High-Knowledge Exports to Canada, 1990-96



Computers and Telecommunication Exports to Canada

1996



Source: Statistics Canada

...and will likely be a key force in tomorrow's global economy

As the Asia Pacific region grows and prospers, the world economy will be increasingly shaped by these economies.

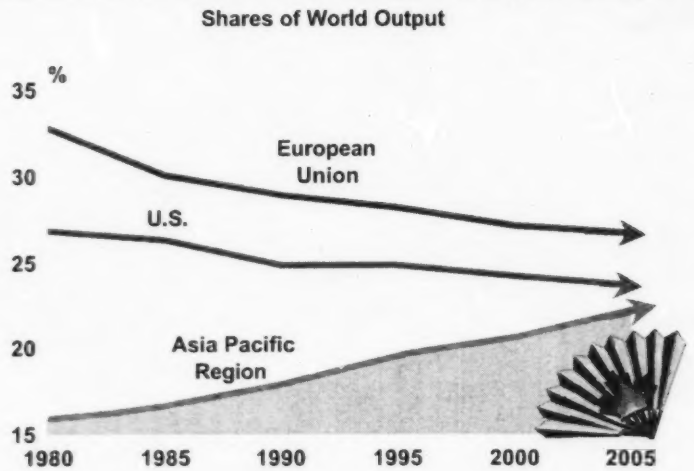
The World Bank estimates that 400 million Asians (many in the Asia Pacific region) will have personal incomes equal to or above the average for the OECD.

And the Asia Pacific region is accounting for a rising share of world output.

If the trend in world output continues, the Asia Pacific region could overtake the U.S. economy within the next 10-20 years.

As the Asia Pacific's vast markets continue to grow and open up, they will provide enormous trading and investment opportunities for Canada.

Compelling Reasons to Look to the Asia Pacific Region



Source: World Economic Outlook, DRI/McGraw-Hill, 1997.

Are we tapping these markets?

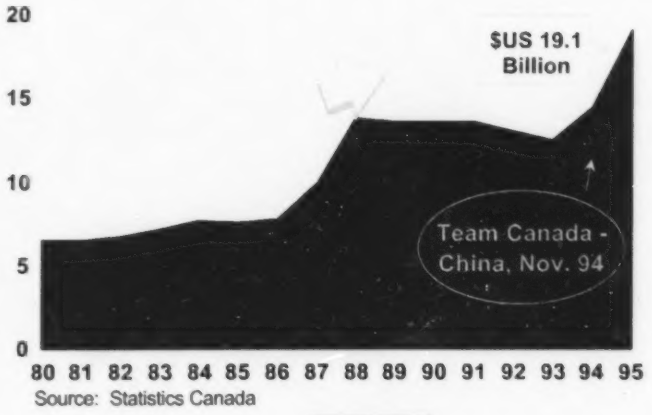
While our links are significant...

Our exports with the Asia Pacific region have increased by about 7.1% annually since 1990.

A major surge occurred in 1995 — which was a relatively favourable year for commodity export prices.

- **Our exports to the Asia Pacific region are mostly foods and raw materials.**

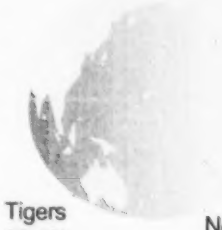
Canadian Exports to the Asia Pacific Region
$US Billion



Source: Statistics Canada

1995

Japan
50.0%



China
13.4%

Tigers
28.1%

New Tigers
8.5%

Did you know?

Asia Pacific economies comprise one of our fastest growing markets for Canadian goods. In the last decade, our exports to the Asia Pacific region has exceeded our exports across the Atlantic. And in 1995, Japan surpassed the U.K., Germany, France and Italy, together, in terms of imports from Canada.

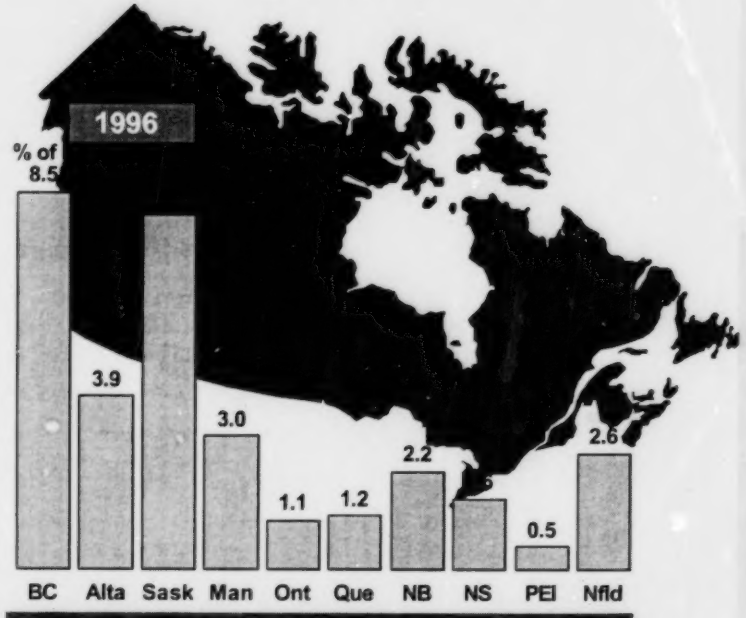
...benefitting all regions...

Our western provinces and resource-based industries are our biggest exporters to the Asia Pacific economies — but all provinces have significant dealings.

B.C. remains Canada's gateway to the Asia Pacific region. In recent years, about 34% of the province's exports were to Asia, with the majority to Japan.

Provincial Exports to the Asia Pacific Region

Merchandise Exports



Asia Pacific Exports as a % of Total Provincial Exports									
33.8	11.2	22.2	11.6	2.7	3.3	7.8	8.7	3.3	8.5

Provincial Share of Canada's Exports to Asia Pacific									
40.5	16.2	9.6	3.8	15.7	9.5	1.7	1.4	0.1	1.2

Source: Statistics Canada

...they are still fragile...

While our 1995 trade results with the Asia Pacific region were impressive, they have fallen back a bit in 1996 — a result of falling commodity prices, reduced demand for some other resources such as coal, and a generally slow-showing by the Japanese economy.

Our exports to the Asia Pacific region fell by 7.8% in 1996 — exports to Japan were down 7.4%, China by 14.2%, and Hong Kong by 30.7%.

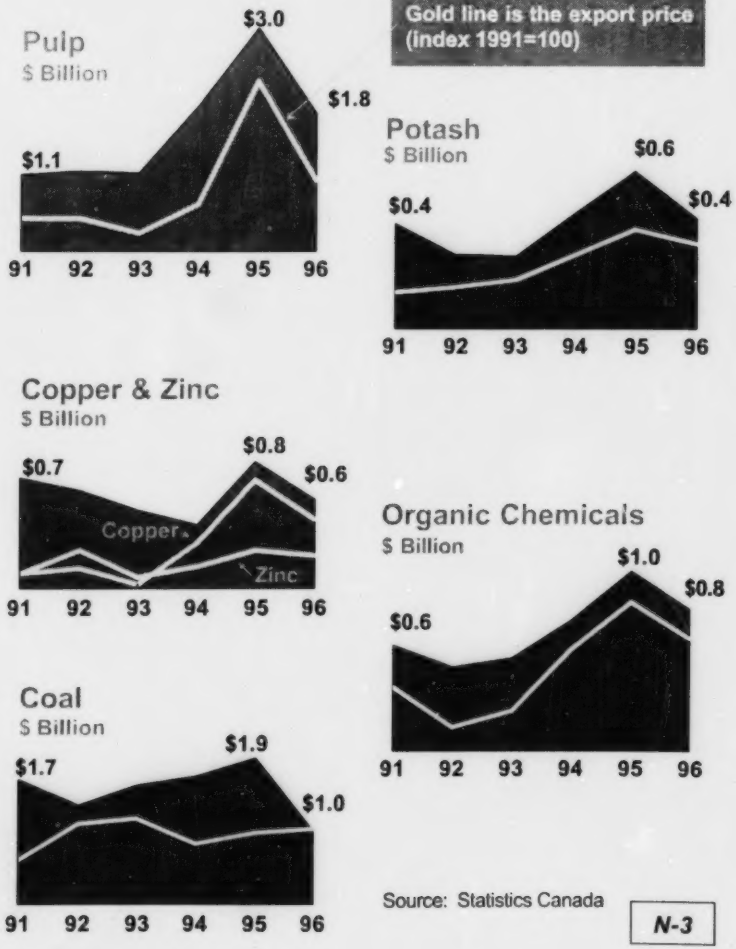
- This occurred at a time when Canadian exports overall went up by 4.4%.

Our recent decline in the value of our trade with the Asia Pacific region has been heavily affected by a drop in commodity prices.

Impact of Falling Commodity Prices

Commodities and Export Prices

Gold line is the export price (index 1991=100)



Source: Statistics Canada

...and slipping

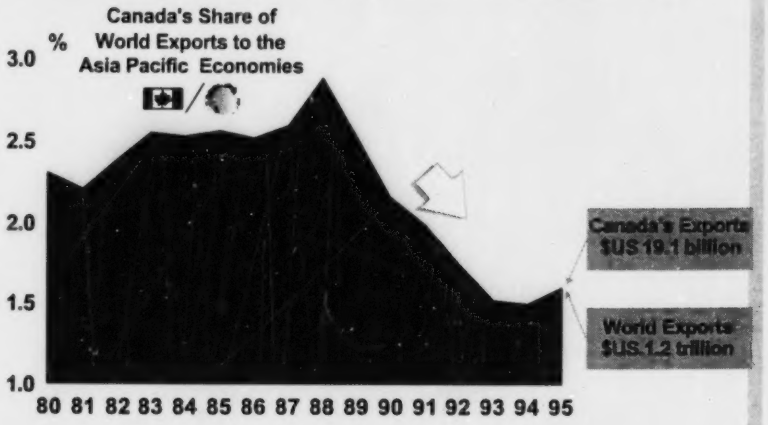
In 1988, Canada supplied 2.9% of all exports going to economies of the Asia Pacific region. By 1995 that figure slipped to 1.6% — a 45% decline in share.

Partly this reflects the enormous increase in trade among the Asia Pacific economies. Intra-regional trade flows are expected to surpass $US 1 trillion in the not too distant future.

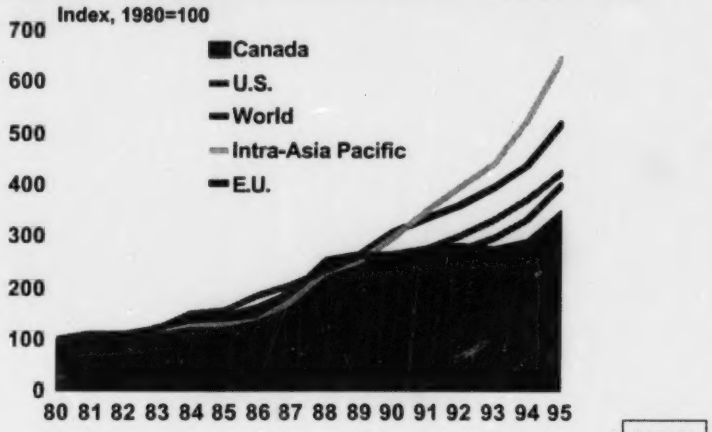
- **The value of trade among the Asia Pacific economies is now almost double that between the Asia Pacific region and North America.**

Since 1988, our share of world exports to Asia Pacific economies has been in an almost steady decline.

Canada's Share of Exports to Asia Pacific Economies


Canada's Share of World Exports to the Asia Pacific Economies
%
3.0
2.5
2.0
1.5
1.0
80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95
Canada's Exports $US 19.1 billion
World Exports $US 1.2 trillion

Total Trade with the Asia Pacific Region



Source: Statistics Canada

Our competitors are doing better...

We are in intense competition with other countries to increase trade with the Asia Pacific — but others are doing better!

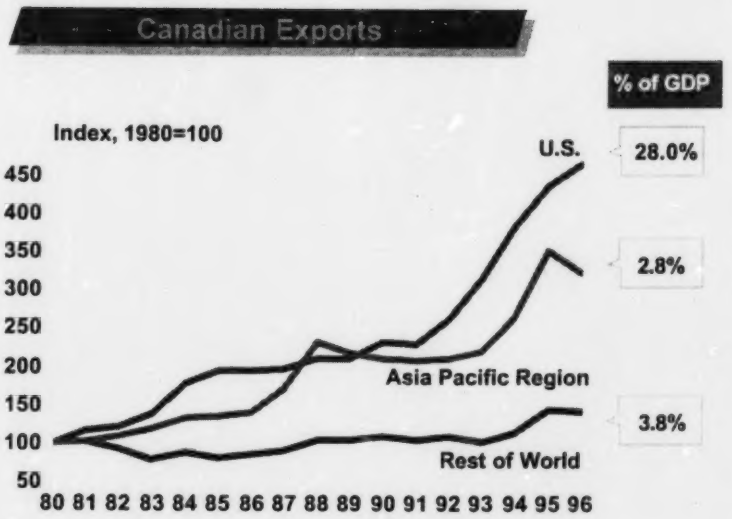
The efforts by Canadian business to export to the Asia Pacific economies — as measured by the proportion of total exports going to the region — is lower than that of several of our competitors, most particularly the U.S. and Australia.

Only 1.6% of the Asia Pacific region's imports were from Canada in 1996. This represents the lowest share of imports of all the G-7 countries.

Source: Statistics Canada

...while we focus 'south'

Although our exports of goods have risen rapidly since the end of the 1980s and the implementation of the FTA, from 25% of GDP to close to 35% in 1996, almost all of this has been due to our success in "looking south" — to the U.S.



Source: Statistics Canada

Our recent export success reflects our 'looking south'.

And although the U.S. is a larger, richer market...

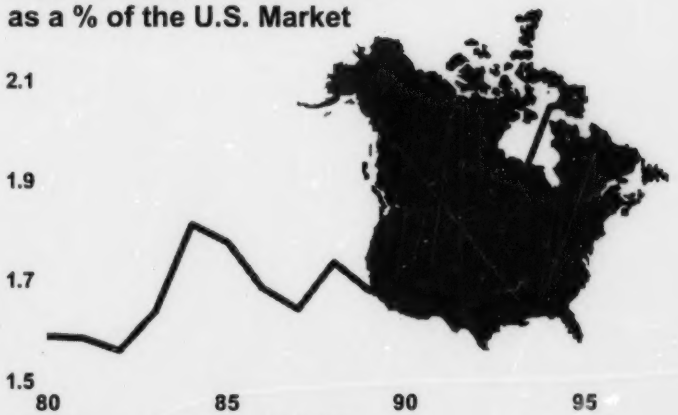
We are at the door-step of the richest market, so it is natural we first go to the U.S. — it looms so large.

But while there are still many opportunities in the U.S., the Asia Pacific region represents a relatively untapped market.

Indeed, despite our growing exports to the Asia Pacific region, its fast growth and penetration by other countries means our overall share of their domestic market is less than 0.3% and trending down.

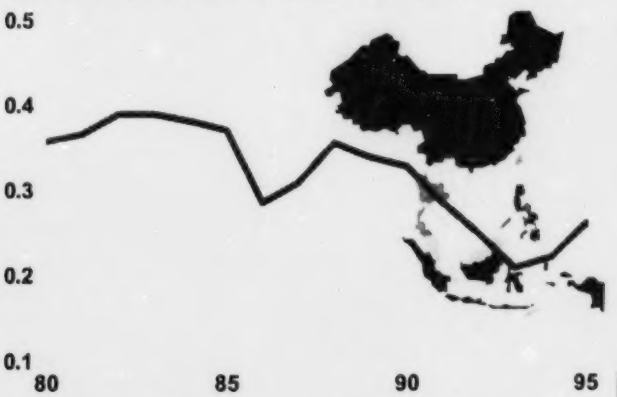
Our penetration of the U.S. market is increasing while that of the Asia Pacific market is decreasing.

Canada's Exports to the U.S. as a % of the U.S. Market



* Canadian exports as a share of U.S. GDP

Canada's Exports to the Asia Pacific Region as a % of the Asia Pacific Market



N-7

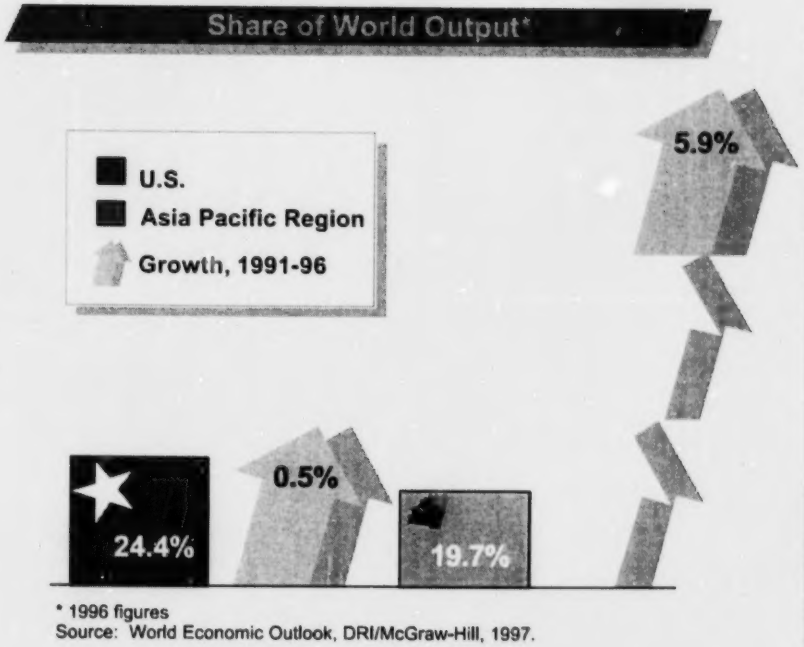
* Canadian exports as a share of the Asia Pacific economies' GDP.
Source: Statistics Canada and World Economic Outlook, DRI/McGraw-Hill, 1997.

...the Asia Pacific region is where tomorrow's action will likely be

In a word, the Asia Pacific region will bring — opportunities!

And since the region's markets could eventually catch and exceed the U.S. market, it is important to be there.

By <u>not</u> rising to the promise of these markets, we will only be leaving them to others who better understand the stakes.



* 1996 figures
Source: World Economic Outlook, DRI/McGraw-Hill, 1997.

Opportunities in the Asia Pacific region will likely expand at a fast rate as the economies also quickly grow.

How can we do better?

Opportunities, Advantages & "Crosswinds'

Traditional opportunities will remain strong...

Growth in the Asia Pacific region has always been accompanied by the need for food-stuffs, raw materials and natural resources.

- **Close to 70% of our goods exports to the Asia Pacific region are resource-based.**

Our commodity and semi-processed exports are cyclical, and face future challenges, as new capacity in the region comes on stream and as new technologies effectively reduce the demand for raw materials.

- **In time, our exports of resource-saving technology may be as important, if not more so, than our exports of the resources themselves.**

Resources Dominate Our Exports

Merchandise Exports to the Asia Pacific Region, 1996

Selected Industries

Agriculture	$3.3 b
Mining & Oil	$3.5 b
Food	$1.9 b
Wood Pds	$3.3 b
Paper	$2.9 b

Resource-based	**$15.2 b**
Total exports	**$21.9 b**

Source: Statistics Canada
Please also see Robert N. McRae, "Canada's Natural Resource Exports to the Asia Pacific Region" and Tim Hazeldine "Comment" in The Asia Pacific Region in the Global Economy: A Canadian Perspective (1996).

Opportunities

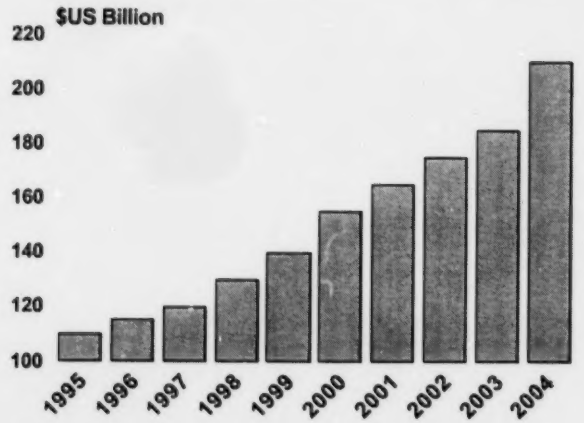
Our major exports include food-stuffs and natural resources. In 1996, Canadian resource-based exports to the Asia Pacific region exceeded $15 billion.

...as the Asia Pacific economies further develop...

Strong economic growth puts tremendous strain on physical infrastructure (e.g., roads become congested and power sources need to be enhanced).

Forecasts indicate there will be a huge market for infrastructure.

Asia's Infrastructure Investment Needs



Source: World Bank, as cited in Canada Asia Review 1997

Canadian firms excel in infrastructure project development — for which the Asia Pacific region's demand is immense.

Opportunities

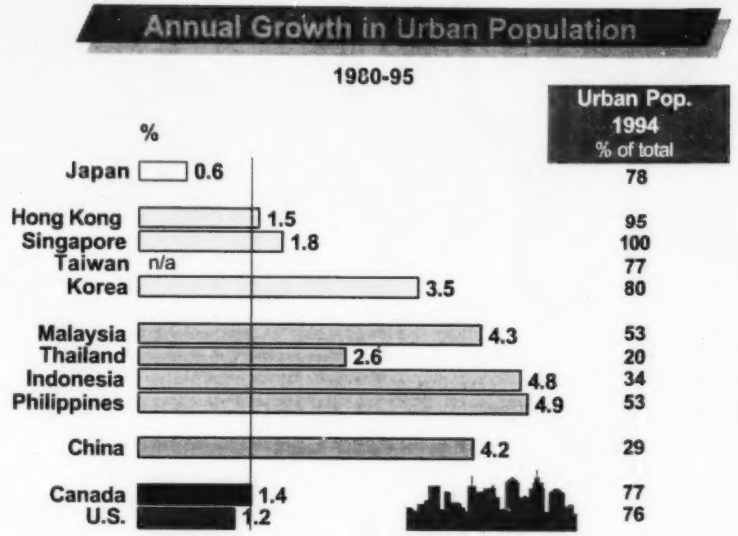
The World Bank estimates that the developing economies in East Asia (excluding India and Pakistan) will have to spend $US 1 - 1.3 trillion on infrastructure between 1997 and 2004 to meet their growth needs. Key industry sectors include power, industrial machinery, energy and related services. Canadian expertise in telecommunications, energy, transportation and many niche markets is providing an excellent match for the infrastructure needs.

...and grapple with becoming more urban...

Opportunities

The Asia Pacific economies are also becoming more 'urban' and 'modern'.

This will exacerbate already serious problems of providing basic services such as housing, water supply, sanitation and transport needs.



Source: The World Development Report 1997

Opportunities

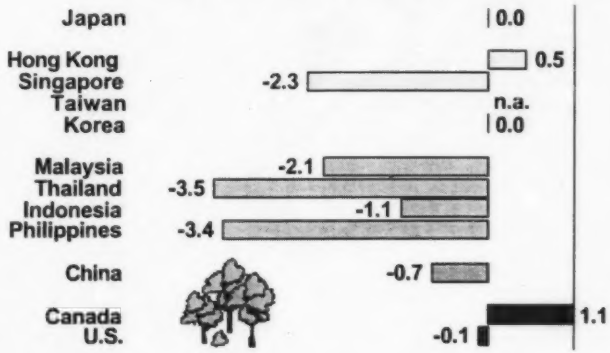
Canadian expertise in power generating, communications networks, mass rapid-transit systems, road expansion, and demand for equipment and services related to port, airport and railway development matches up well with the infrastructure needs of the Asia Pacific economies.

...and more environment-friendly

Rapid economic growth in the Asia Pacific region has had an alarming effect on the environment, with rapid loss of forests and pollution of both surface and groundwater. "Brown" environmental issues are also becoming increasingly critical — with air and water pollution already a major problem in many of the region's cities.

Shrinking Forests

% Change in Forest Coverage, 1980-90



Source: World Bank Development Indicators 1997

	Access to Sanitation Services		Safe Drinking Water	
	% of pop., 1995			
	Rural		Rural	
China	6	70	89	93
Indonesia	39	78	54	78
Malaysia	94	94	66	96
Philippines	67	87	77	93
Thailand	86	84	85	67

Source: United States Central Intelligence Agency

Opportunities

There are considerable opportunities in resource management and in environmental technologies — including pollution control equipment and consulting services, and in water and sanitation facilities and waste management processes. Opportunities will increase as it becomes better understood that the costs of ill health and declining well-being resulting from pollution inhibit economic growth. Canadian firms have ample expertise in environmental matters and technologies.

The Asia Pacific region is also focusing more on the "new economy"...

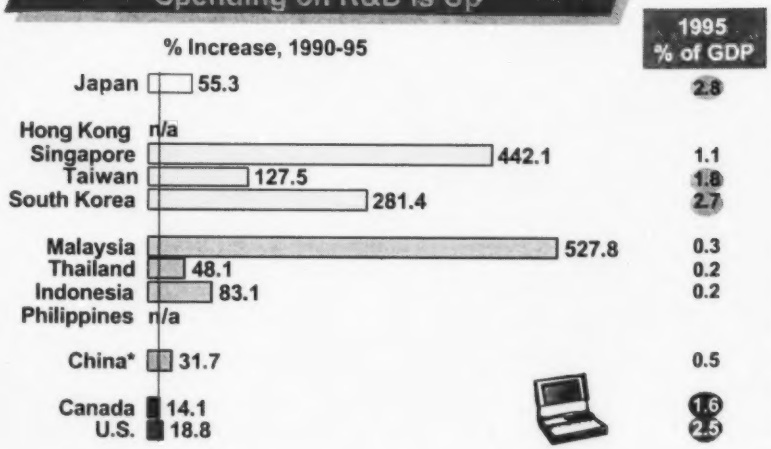
The pace of global change is perhaps felt nowhere more acutely than in the Asia Pacific region.

The economies realize the pivotal role played by knowledge activities, and their current difficulties are only strengthening their convictions that future growth will be linked to their capacity to embrace information and be innovators.

The Asia Pacific economies do not want to lag behind in the knowledge-driven world of the next century.

Japan, Taiwan and South Korea have devoted substantial resources to R&D. And while R&D spending in the U.S. and Canada has shown modest improvement over the last 5 years (as a percent of GDP), the Asia Pacific economies — the Tiger economies and Malaysia, in particular — have increased their R&D investment tremendously.

Spending on R&D is Up



* 1992-95
Source: The World Competitiveness Report and
The World Competitiveness Yearbook, various issues

Opportunities

Canadians have higher capability in R&D than many of the developing Asia Pacific economies, and are in a position to contribute expertise and advanced technologies. Canada has experience in creating 'new economy' infrastructure needed for modern, global economies.

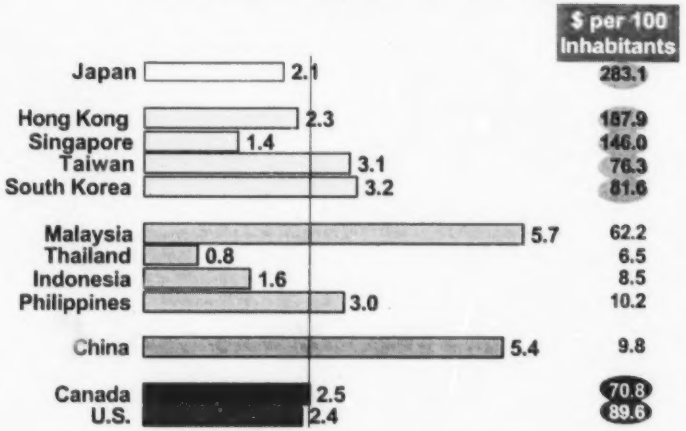
...including information technology

The Asia Pacific marketplace for information technologies has been especially fast-growing.

Already, the Asia Pacific economies are securing millions in new investments in telecommunications and information technologies to meet the demands of a modern, information-intensive world — wiring their nations with the best available technologies.

Telecommunication Investment is Rising

% of Gross Fixed Capital Formation, 1995



Source: The World Competitiveness Yearbook 1997

Opportunities

In the process of upgrading their infrastructure, the Asia Pacific economies will require the best available information technology. These include telecommunications, computers and software. Canada has first-hand expertise in telecommunications and information technologies.

China's rapid rise is spurring others to advance!

Opportunities

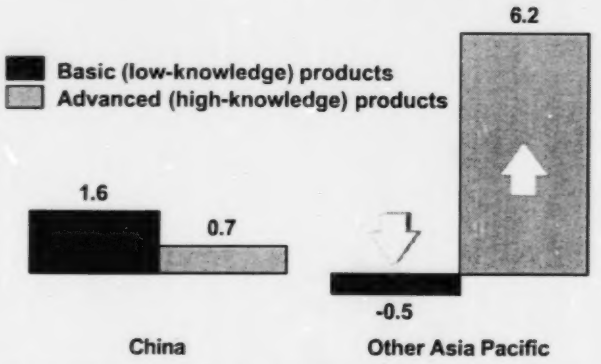
The rapid emergence of China and its vast export capacity is putting intense pressure especially on the new Tigers, to take steps to move up into higher knowledge goods and services.

China is exporting larger quantities of both basic and advanced products and services.

- **The other Asia Pacific economies are increasingly moving away from exporting low-knowledge products to exporting high-knowledge products.**

China is Exporting More Basic Manufactures

Change in Canadian Imports, $ Billion, 1990-96



Source: Industry Canada calculations based on Statistics Canada data.

Opportunities

The new Tigers may have to move more quickly into technologically advanced activities, to keep ahead of the new huge export capacity coming on stream in China. China, too, will want to compete at the forefront. As a result, there will be continuing strong demand for advanced equipment which Canada can help provide.

We are exporting more knowledge-exports...

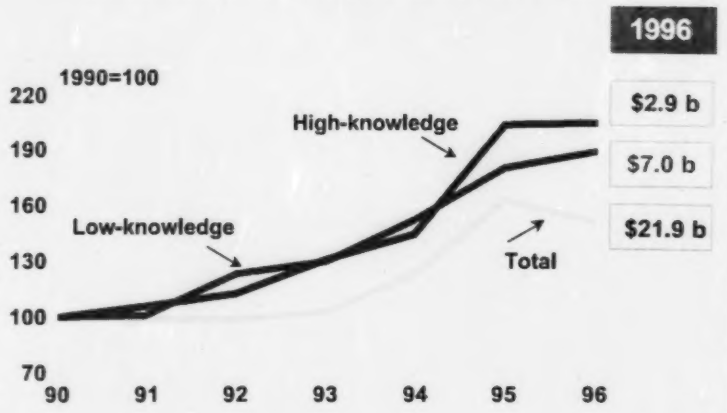
Are We Seizing Our Opportunities?

In the last few years, growth of our knowledge-based exports to the Asia Pacific region have exceeded that of our other exports.

But the overall increase in our low-knowledge exports between 1990 and 1996 (up from $3.7 to $7.0 billion) clearly outweighs the $1.5 billion increase in our high-knowledge exports (from $1.4 to $2.9 billion).

Canadian Exports of Knowledge Goods Picking Up

Canada's merchandise exports to the Asia Pacific



Source: Industry Canada calculations based on Statistics Canada data.

...and business services...

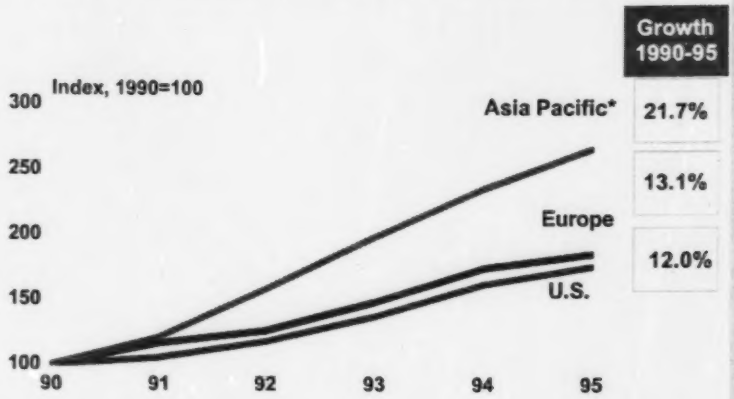
The changing Asia Pacific region fits in well with some of Canada's emerging strengths, especially when it comes to business services.

Exports of business services to the Asia Pacific region have been growing at a remarkable 21.7% a year.

While Japan constitutes the largest recipient of Canadian exports of business services, the developing Asia Pacific economies have been rising fast. Between 1990 and 1995, exports to Malaysia increased from $8 million to $87 million — an average annual increase of 61.2%!

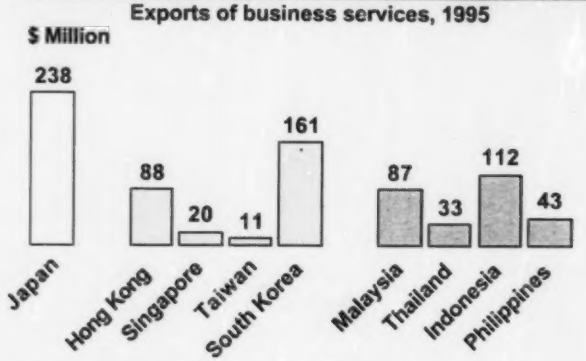
Canadian expertise in design and engineering is world renowned. The Asia Pacific region has been Canada's strongest market for business services.

Our Business Services Exports are Rising...



* Excluding China due to lack of data

...and Significant in Each Economy



Source: Statistics Canada, unpublished data

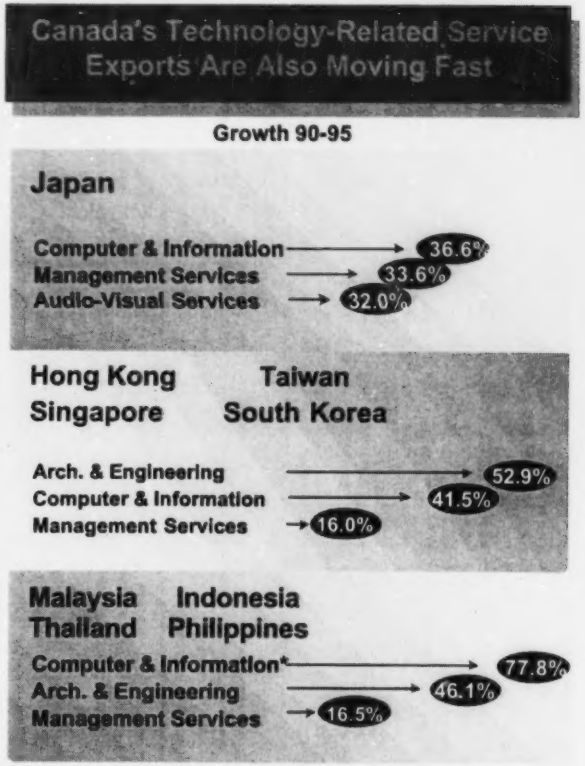
...especially computer and information services...

Information technologies have been particularly fast-growing.

These include engineering, management consulting, and scientific and technical work.

Our exports of technology-related services have been strong. And if we want to be leaders in information technology, we must be part of the rapidly growing Asia Pacific market.

Canada's Technology-Related Service Exports Are Also Moving Fast



* Average annual growth 1991-95

Source: Statistics Canada, unpublished data

For further information about business and education services exports, please see Lawrence L. Schembri, "Canadian Exports of Business and Education Services to the Asia Pacific Region" in *The Asia Pacific Region in the Global Economy: A Canadian Perspective* (1996).

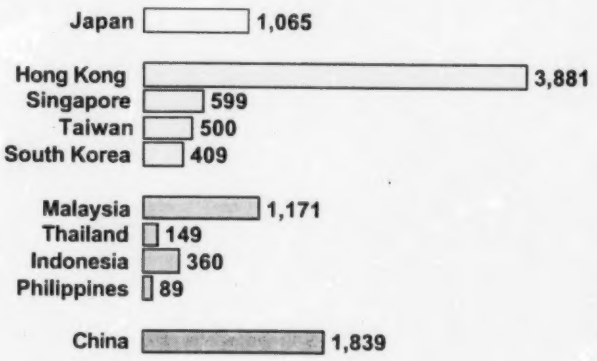
...while our education 'exports' remain popular

As the Asia Pacific region shifts faster into information-based activities, demand increases for high quality education in the sciences and engineering. Although new colleges and educational institutes have opened up in the Asia Pacific region, many students must still study abroad.

- **Canada is an excellent place to study — offering some of the lowest educational costs.**
- **Canada is also recognized as a world leader in curriculum development, language training and specialized skills programs.**

Many Foreign Students Study in Canada

University Students by Country of Citizenship, 1995/96



Source: Statistics Canada, unpublished data

Did you know?

It has been estimated the average tuition fee for a year of undergraduate science is $5,462 in Canada, $10,434 in New Zealand, $10,871 in Australia, $11,504 in Britain and $18,759 at U.S. private universities (and $8,842 for public).

British Council. Cited in Asian Wall Street Journal, Oct. 20, 1997.

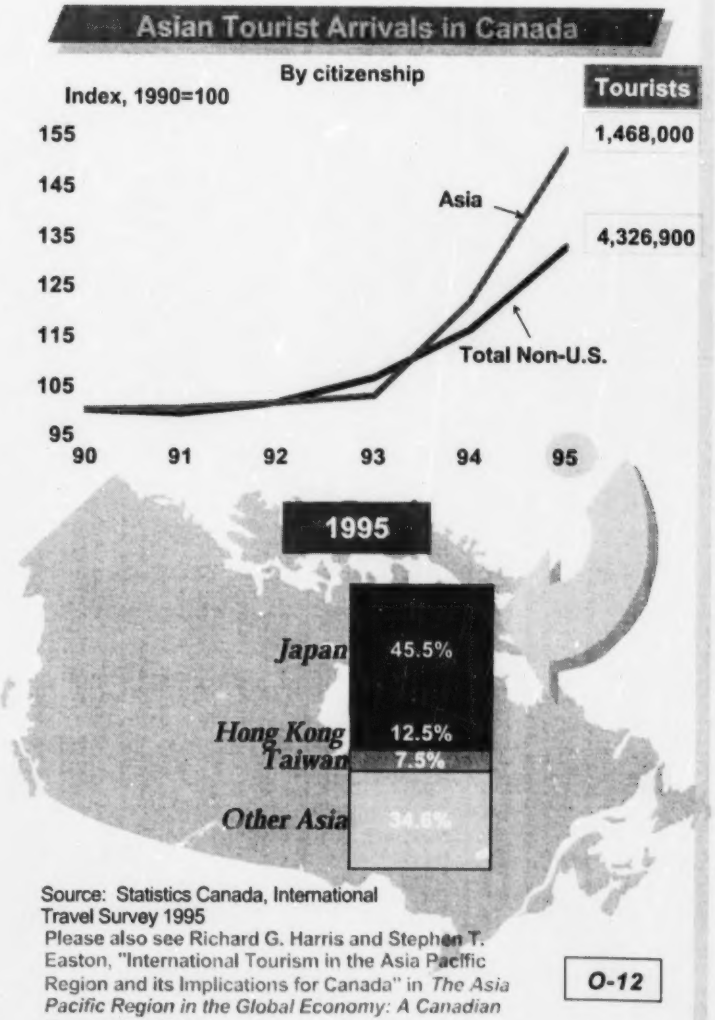
Travel and tourism is picking up, too...

We are also taking advantage of the impact of the Asia Pacific region's rising tourist travel. Canada's natural and cultural attributes are making Canada increasingly attractive as a tourist destination.

Travel to Canada from the Asia Pacific region was particularly strong in 1995.

- **After U.S. travellers, Japanese travellers were our top visitors (more than 650,000)**
- **Three of the top 10 overseas countries of origin for visitors who spent at least one night in Canada included Japan, Hong Kong and South Korea.**

Increased tourism directly benefits our Accommodation & Service industries and helps build future bridges between Canada and the Asia Pacific region.



Source: Statistics Canada, International Travel Survey 1995

Please also see Richard G. Harris and Stephen T. Easton, "International Tourism in the Asia Pacific Region and its Implications for Canada" in *The Asia Pacific Region in the Global Economy: A Canadian Perspective* (1996).

...as is immigration

Of the just over one million immigrants who chose Canada as home between 1991 and 1996, Asian born accounted for more than half. And nearly a quarter of that group came from the Asia Pacific region — particularly Hong Kong and China.

Many come with a business background:

- **Some 15% of all immigrants from Asia in the period 1986-96 had "business class" visas (as entrepreneurs, investors, or self-employed).**

Our recent immigrants from the Asia Pacific region strengthen our ties to the region. Immigrants bring with them a contemporary understanding of the requirements for doing business in the area.

Top Ten Places of Birth

Recent Immigrants*

Total: 1,038,995

Country	Number (Thousands)	%
Hong Kong	109	10.5
China	88	8.5
India	71	6.9
Philippines	71	6.9
Sri Lanka	44	4.3
Poland	37	3.6
Taiwan	32	3.1
Vietnam	32	3.1
United States	29	2.8
United Kingdom	24	2.4

* Recent immigrants are those who came to Canada between 1991 and the first four months of 1996.
Source: Statistics Canada
Please also see Michael Baker and Dwayne Benjamin, "Asia Pacific Immigration and the Canadian Economy" in *The Asia Pacific Region in the Global Economy: A Canadian Perspective* (1996).

Our multicultural heritage may be our key advantage

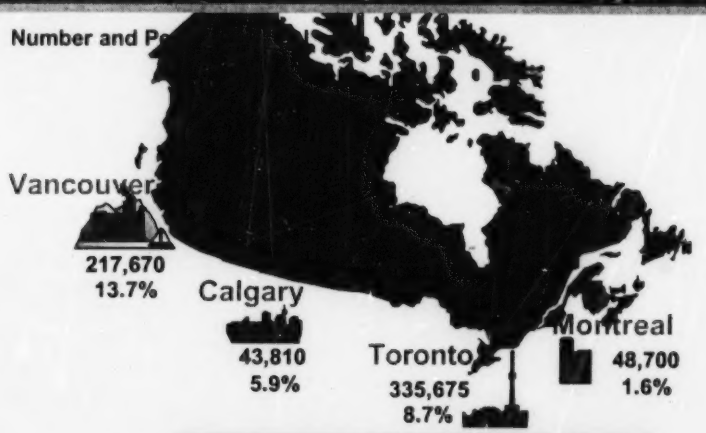
Asia Pacific Canadians are forming an increasingly more significant presence in Canada — and convenient 'link' for business interested in Asian Pacific trade and commerce.

For instance, Toronto, Calgary, Edmonton and Winnipeg all have Asian Pacific communities comprising more than 5% of their populations — and Vancouver more than 10%.

Chinese is now the 3rd most spoken language in Canada, after English and French.

The familiarity of Asia Pacific Canadians with various Asian languages and business practices, and in some cases, family connections are helpful for building business relationships in the Asia Pacific region.

Asia Pacific* Canadians by Province and City, 1991



	Number of Asia Pacific* origin (Thousands)	% of Total
B.C.	240.4	7.4%
Alta	98.2	3.9%
Sask.	9.8	1.0%
Man.	35.2	3.3%
Ont.	400.4	4.0%
Que.	51.9	0.8%
N.B.	1.6	0.2%
N.S.	2.7	0.3%
PEI	0.1	0.1%
Nfld	1.0	0.1%

* Includes Chinese, Filipino, Indonesian, Japanese, Korean, Malay and Thai origins.
Note: Includes single-origin responses only to avoid double counting.
Source: Statistics Canada, 1991 Census

Certain 'Crosswinds' are of concern...

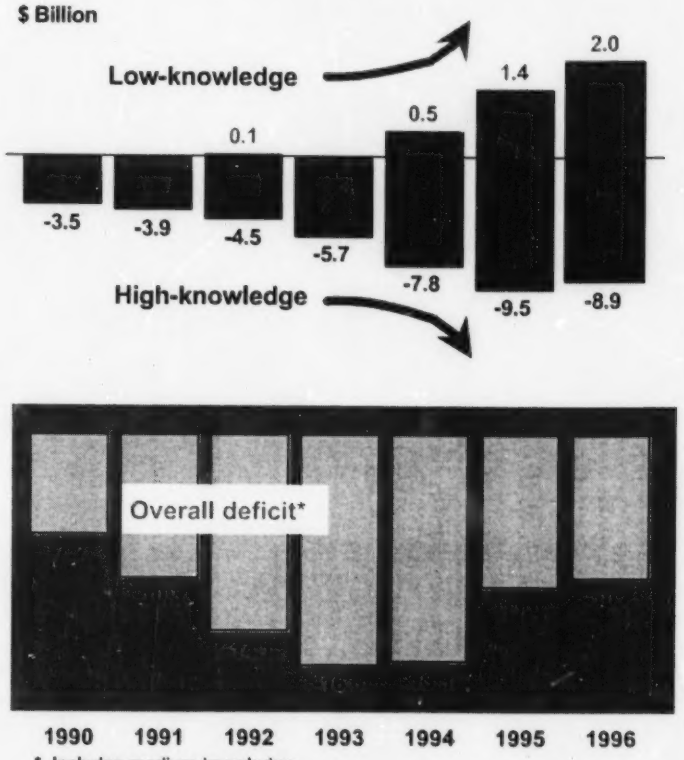
Crosswinds

While we can be optimistic, there are concerns:

- **Our knowledge trade gap is getting worse!**
- **We have a large trade deficit in high-knowledge goods, and a smaller surplus in low-knowledge goods.**

Our high-knowledge deficit is growing faster than our low-knowledge surplus.

Our Trade Balance to the Asia Pacific Region



* Includes medium-knowledge
Source: Industry Canada calculations based on Statistics Canada data.

...including faster upgrading...

Crosswinds

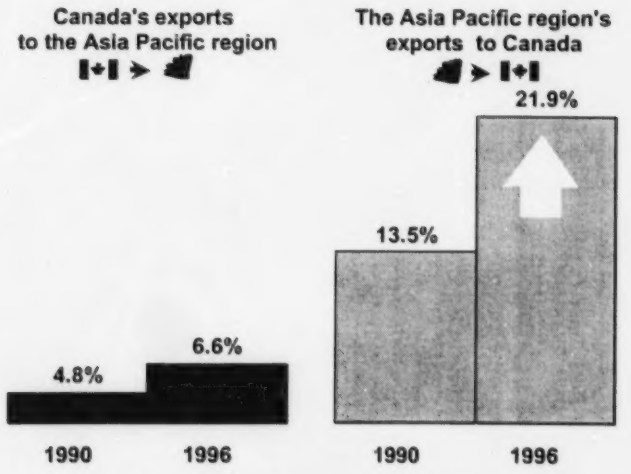
Faster adjustment to knowledge-based activities will allow us to expand our exports.

- **There will always be exports of natural resources and food. And we can build on products and services that require further processing and value-added.**
- **However, faster growing opportunities will likely lie in high-tech niche products geared to specific markets.**

The rules for Canadian exports are changing. Advanced technology is fundamentally changing the formula for export success.

The Asia Pacific is Becoming More Knowledge-Based. We Must, Too.

Proportion of High-knowledge in Total Exports



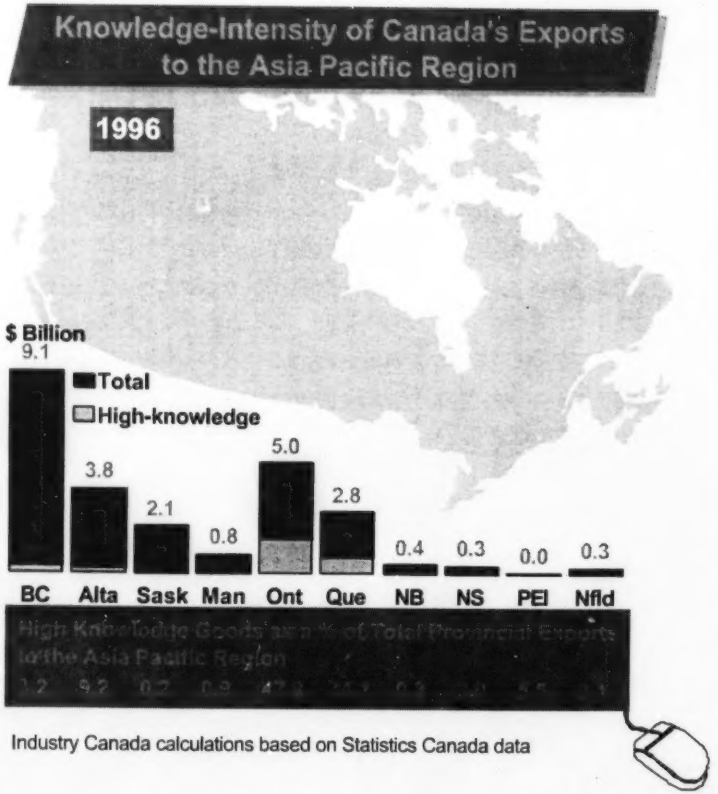
Source: Industry Canada calculations based on Statistics Canada data.

...and being more aggressive in attacking new markets and products...

The fast growth in the demand for high-knowledge products and services in the Asia Pacific region may be a window of export opportunity for our own high-knowledge and emerging high-tech industries.

Although B.C. remains our gateway to the Asia Pacific region, their further success (and that of Canada as a whole) in the Asia Pacific region will probably be modest unless our industries advance into further processing of their products, and into higher-value and higher knowledge niche markets.

Right now, Ontario is capturing the bulk of new high-knowledge exports.



Industry Canada calculations based on Statistics Canada data

...especially in the case of SME's

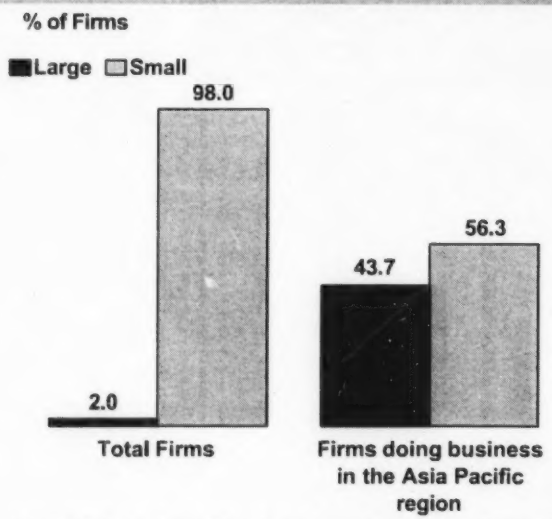
Our SMEs are becoming more involved in innovation and in developing niche markets involving higher knowledge goods and services.

While SMEs account for over 98 percent of all business firms in Canada, they account for a much smaller share of the firms doing business in international markets, and only 56 percent of all firms doing business in the Asia Pacific region.

SMEs face particular obstacles when contemplating penetration of the Asia Pacific markets:

Lack of financial resources
Lack of knowledge about Asia Pacific markets
Lack of international managerial experience.

Market Orientation



* Small includes firms with sales revenue of up to $1 million in 1995.
Source: Someshwar Rao and Ashfaq Ahmad, "Canadian Small and Medium-Sized Enterprises: Opportunities and Challenges in the Asia Pacific Region" in *The Asia Pacific Region in the Global Economy: A Canadian Perspective*, 1996.

Getting there...

High marks for recent initiatives at opening up new markets...

The task of matching Canadian expertise with opportunities offered by Asia Pacific's economies is not simple.

The Asia Pacific region is unlike domestic and North American markets — different cultures, languages, customs and laws make exporting more complex. But there is help available.

Government agencies and departments, particularly the Department of Foreign Affairs and International Trade provide advice and information of foreign markets, distribution channels, trade fairs, suitable agents or distributors and may be able to identify potential foreign customers.

But firms must also explore to a greater extent, the various ways of working with other companies. Networking, joint ventures, licensing agreements, technology exchanges, and supplier partnering can help spread the investment and minimize the risk involved in exporting to the Asia Pacific region.

Select list of federal services —

Export On-Line Information:

ExportSource — a Team Canada on-line effort of Industry Canada, Foreign Affairs & International Trade, Agriculture & Agri-Food Canada and other departments and agencies for businesses seeking export information.

Strategis — Industry Canada's Strategis website offers business detailed information on companies, technologies and market opportunities globally

Also: InfoExport
Canada's International Business Strategy

Export Financing Programs and Services:

Development Corporation
Business Development Bank of Canada
Canadian International Development Agency
Canadian Commercial Corporation
Program for Export Market Development

Export Training Programs and Services:

New Exporters to Overseas
Forum for International Trade Training
NEXPRO

Technology Programs and Services:

Technology Inflow Program
Canadian Technology Network
Technology Development Officers

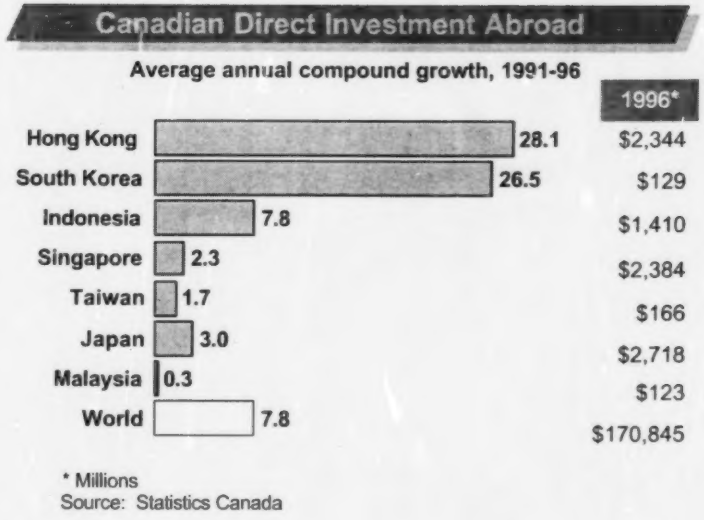
Canada Business Service Centres, International Trade Centres, and Canada's Trade Commissioner Service.

Atlantic Canada Opportunities Agency, Federal Office of Regional Development - Quebec (Ford-Q), Federal Economic Development Initiative for Northern Ontario (Fed/Nor), and Western Economic Diversification Canada.

...which appears to be paying off!

In recent years, Canada has become more assertive by increasing its investment in the Asia Pacific region — generally a precursor to further trade.

But we need to be forward-looking to take advantage of many of the growing opportunities within their markets. And knowledge-based exports often depend on competitive edges that depend on ongoing attention to innovation and the continual development of new market niches.



Our Report Card is improving!

	The Asia Pacific Region's Import Market				How are we doing?			
Industries	Size	Growth	Our Export Growth	Our Share	Trade Balance	Exports/ Imports	Exports/ Imports	Outlook*
Select industries	$US Million, 1995	%, 1990-95	%, 1990-95	%, 1995	$US Million, 1995	Ratio, 1995	Change in Ratio 1990-95	
Resource-based								
Wheat	5,051	4.2	0.2	25.2	1,274	n.a.	n.a.	
Pork	3,831	17.1	8.3	4.7	179	n.a.	n.a.	○
Wood	6,671	15.7	17.9	33.3	2,217	432.08	+	○○
Wood Pulp	4,902	15.9	18.2	37.6	1,843	n.a.	n.a.	○○
Coal	8,027	0.8	-4.3	16.7	1,338	n.a.	n.a.	
Potash	579	-3.6	4.5	79.7	461	92367.60	n.a.	
Plywood & Carpentry	6,066	16.0	33.1	4.0	228	16.51	+	○○
Newsprint	1,529	16.6	27.1	42.9	655	n.a.	n.a.	○○
High-Knowledge								
Calculating Machines	24,777	23.4	34.3	0.4	-935	0.09	●	○○
Computers	23,779	23.3	22.8	0.4	-666	0.11	●	○○
Telecom Parts	38,808	23.1	30.3	1.4	-212	0.72	●	○○
Electronic Parts	97,256	27.8	10.1	0.1	-858	0.13	●	○○
Auto Parts	12,580	7.4	35.9	2.4	-522	0.36	●	○
Aircrafts & Parts	18,354	9.9	-0.1	1.5	251	10.09	●	○
Specialized Machinery	24,051	19.0	13.9	0.7	-264	0.38	●	○○

Comments

The Asia Pacific region's import markets for high-knowledge goods are bigger and growing faster.

Many of our knowledge-based exports show fast growth. So, too, are our resource-based products which include some processing.

Although we have an overall growing trade deficit in high-knowledge goods, many of our knowledge goods have found specialized niches. In these products, the high-knowledge deficit is declining.

* Based on expectation of continuing strong import demand and ability of our exports to capitalize.
Source: Statistics Canada, World Trade Database

In a nutshell...

The Asia Pacific region's present difficulties obscure the region's promising potential. The region's long-term outlook remains quite positive. Indeed, the Asia Pacific region's prosperity will go a long way to determining our own prosperity as a country, because if we are to position ourselves for tomorrow, we must be where markets are going to be growing fastest. And that will likely be in the Asia Pacific region — our destinies are intertwined.

We are fortunate. We have resources to compete, and advantages to exploit. But just as the Asia Pacific region is rapidly moving into more knowledge-based activities, we too must pay increasing attention to the key role played by knowledge and technology in shaping future wealth.

While our natural resources are an advantage we can build on, we must also strive to foster more knowledge-intensive activities and develop new niches. Our success in the future, will be measured not only by how willing we are to boldly tackle new markets, but also by how well we innovate and create new and better, value-added products and services.

In a nutshell — by being both outward-oriented and forward-looking! Success will make our future years as a Pacific player our best years.

Our economic destiny is intertwined to this dynamic region...and our success to being both outward-oriented <u>and</u> forward-looking.

Annex

At a glance

Economies	Population	Pop. <15	% Urban	GDP Growth	GDP per capita	Investment rate	Productivity growth	Higher education
	Millions, 1996	% of pop., 1996	%, 1994	% based on national currency, 1996	% based on national currency, 1991-96	Gross domestic investment as % of GDP, 1996	% change in real GDP per person employed	Enrollment as a % of 20-24 age group, 1993
Japan	124.8	17.2	78.0	3.6	1.8	29.6	2.9	30.0
Hong Kong	6.3	20.0	95.0	4.5	5.3	30.5	3.8	21.0
Singapore	3.0	23.0	100.0	7.0	8.3	35.8	5.5	38.0
Taiwan	21.5	23.2	77.0	5.6	6.5	23.2	5.4	n.a.
South Korea	45.5	24.3	80.0	7.0	7.4	38.3	5.0	48.0
Malaysia	21.0	36.4	53.0	8.4	8.6	41.4	5.1	7.0
Thailand	60.0	31.3	20.0	6.7	8.1	43.2	7.8	19.0
Indonesia	196.9	36.6	34.0	7.8	7.8	28.5	5.1	10.0
Philippines	71.0	26.2	53.0	5.5	2.8	23.5	-0.4	26.0
China	1230.0	27.7	29.0	9.7	11.6	35.5	8.9	4.0
Canada	30.0	20.7	77.0	4.4	1.5	17.7	0.2	103.0*
U.S.	264.0	21.9	76.0	2.5	2.0	17.6	1.0	81.0

*** Enrollment is for all age groups, as a percent of the 20-24 age group. In Canada's case, total enrollment in higher education is actually larger than our 20-24 age group.**

Source: Statistics Canada, World Competitiveness Yearbook, Global Competitiveness Report

Economic Profile of Canada's Trade with the Asia Pacific

Source: Statistics Canada, International Monetary Fund

	Canada's Top Exports, 1996	Canada's Top Imports, 1996	Canada's Ranking in Individual Markets, 1996
Japan	Sawmill/Planing Mill Prds Coal Pulp	Motor Vehicles Electronic Parts and Components Computers and Peripherals	11
Hong Kong	Newsprint Telecom Equipment Other Horticultural Specialties	Electronic Parts and Components Sweaters Women's Blouses and Shirts	19
Singapore	Newsprint Primary Non-Ferrous Metals Computers and Peripherals	Computers and Peripherals Electronic Parts and Components Industrial Organic Chemicals	23
Taiwan	Primary Non-Ferrous Metals Industrial Organic Chemicals Newsprint	Electronic Parts and Components Computers and Peripherals Sporting Goods	n.a.
South Korea	Coal Pulp Primary Non-Ferrous Metals	Electronic Parts and Components Computers and Peripherals Major Appliances	12
Malaysia	Newsprint Potash Aircraft and Aircraft Parts	Electronic Parts and Components Record Players, Radios &TVs Computers and Peripherals	18
Thailand	Wheat Asbestos Industrial Organic Chemicals	Fish Products Computers and Peripherals Electronic Parts and Components	27
Indonesia	Wheat Pulp Machinery and Equipment	Forestry Services Footwear Record Players, Radios and TVs	15
Philippines	Wheat Copper and Copper-Zinc Primary Non-Ferrous Metals	Electronic Parts and Components Computers and Peripherals Fish Products	21
China	Wheat Pulp Telecom Equipment	Toys and Games Footwear Other Manufactured Prds	11

	Trade with Canada			Trade with World	
	Total Exports, 1996 $ Million	Total Imports, 1996 $ Million	Trade Balance, 1996 $ Million	Trade Balance, 1996 % of GDP	Current Account Balance, 1996 % of GDP
Japan	11,021.98	10,443.70	578.28	1.8	1.4
Hong Kong	1,128.97	1,143.11	-14.14	-11.8	-1.0
Singapore	537.82	1,190.97	-653.15	-0.6	15.0
Taiwan	1,368.33	2,863.45	-1,495.11	6.5	3.8
South Korea	2,770.77	2,727.66	43.12	-3.2	-4.9
Malaysia	510.24	1,580.09	-1,069.85	4.1	-4.9
Thailand	514.61	1,043.31	-528.70	-4.8	-8.0
Indonesia	900.94	625.84	275.10	1.5	-4.0
Philippines	285.38	552.64	-267.26	-13.4	-4.3
China	2,827.84	4,925.86	-2,098.01	1.5	0.9

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Provincial Trade with the Asia Pacific, 1996

Source: Statistics Canada, International Monetary Fund

	Top Exports, 1996	Top Imports, 1996	Exports to Asia Pacific % of GPP	Resource Exports/Total Exports to Asia Pacific	Exports to Asia Pacific/Exports to World
British Columbia	Sawmill/Planing Mill Prds Coal Pulp	Motor Vehicles Record Players, Radios & TVs Computers & Peripherals	8.5%	85.3%	33.8%
Alberta	Wheat Coal Pulp	Electronic Parts & Components Telecom Equipment Construction & Equipment	3.9%	67.5%	11.2%
Saskatchewan	Wheat Potash Oilseeds (except corn)	Construction & Equipment Rolled, Cast & Extruded Metals Machinery & Equipment	8.0%	99.4%	22.2%
Manitoba	Wheat Oilseeds (except corn) Primary Non-Ferrous Metals	Computers & Peripherals Women's Blouses & Shirts Sweaters	3.0%	79.6%	11.6%
Ontario	Telecom Equipment Primary Non-Ferrous Metals Machinery & Equipment	Electronic Parts & Components Computers & Peripherals Motor Vehicle Wiring Assemblies	1.1%	19.5%	2.7%
Quebec	Com & Electronic Equip. Newsprint Asbestos	Electronic Parts & Components Spun Yarn & Woven Cloth Computers & Peripherals	1.2%	43.3%	3.9%
New Brunswick	Newsprint Fish Products Pulp	Construction & Equipment Office, & Business Machines Fish Products	2.2%	98.8%	7.8%
Nova Scotia	Fish Products Newsprint Salt Water Fish	Forestry Services Machinery & Equipment Fish Products	1.6%	88.3%	8.7%
Prince Edward Island	Fish Products Frozen Fruit & Vegetables Peat	Machinery & Equipment Construction & Equipment Electrical Industrial Equipment	0.5%	93.2%	3.3%
Newfoundland	Fish Products Newsprint Iron	Chemical Products Textiles Machinery & Equipment	2.6%	99.7%	8.3%

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Any questions or comments?

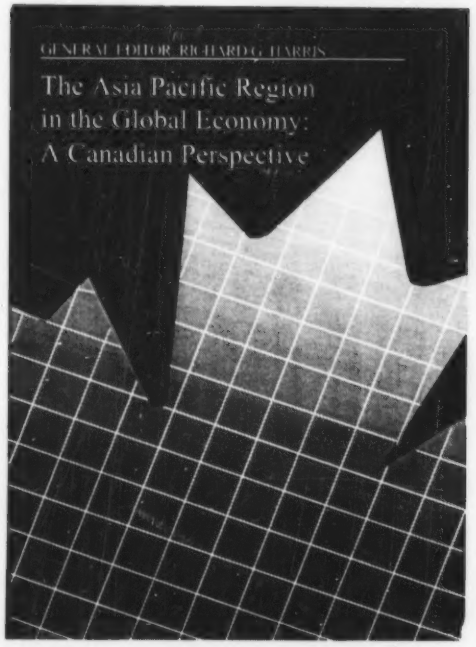
We welcome your questions, comments and suggestions? You can reach us by ...

sending us a letter: **Denis Gauthier**
Director General
Micro-Economic Policy Analysis
Industry Canada
235 Queen Street
Ottawa. Ontario
K1A 0H5

e-mailing: **gauthier.denis@ic.gc.ca**

or faxing us at: **(613) 991-1261**

For additional information on the Asia Pacific, you may wish to consult *"The Asia Pacific Region in the Global Economy: A Canadian Perspective"* — a recent publication in the Industry Canada Research Publication Series that examines the Asia Pacific opportunities and challenges from a Canadian perspective. To find out more, please contact Someshwar Rao at (613) 941-8187.



The Micro-Economic Monitor is prepared on a quarterly basis by the Micro-Economic Analysis Directorate of Industry Canada. The Monitor provides a quick and easy-to-read update on Canada's economic performance. It also provides topical in-depth reports on current economic issues from a micro-economic perspective.

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